

**PUBLIC OVERSIGHT HEARING ON
THE FY 2006 AND FY 2007 SPENDING AND
PERFORMANCE OF THE OFFICE OF BUDGET AND
PLANNING (OBP)**

**Before the
Committee of the Whole
Council of the District of Columbia**

The Honorable Vincent C. Gray, Chairman

**March 6, 2007, 3:30 p.m.
Council Chamber, John A. Wilson Building**



**Testimony of
Bert Molina
Deputy Chief Financial Officer
Office of Budget and Planning**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good afternoon, Chairman Gray and Members of the Committee of the Whole. I am Bert Molina, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). I am here today to testify on the FY 2006 performance and FY 2007 plans of the Office of Budget and Planning during fiscal years 2006 and 2007. This is the sixth year that I have had the honor to appear before this committee to present testimony on the accomplishments of my office and what our plans are for improving OBP's performance and the services we provide to citizens and District agencies in the future.

With me today are Mr. Gordon McDonald, Associate Deputy CFO, Mr. David Meadows, Director of Budget Administration, and Mr. James Spaulding, Director of the Capital Improvements Program. My colleague, Mr. Lasana Mack, Deputy Chief Financial Officer for Finance and Treasury, will address questions related to cash and debt management.

I will cover the following 3 areas in my remarks:

- Fiscal Years 2006 and 2007 operating expenditures,
- F Y 2006 performance; Fiscal Year 2007 operational goals; and
- The Capital Improvements Program

Fiscal Years 2006 and 2007 Operating Expenditures

In Fiscal Year 2006, OBP operated within its revised budget of \$6,228,415, spending almost 100 percent of its available funds.

For Fiscal Year 2007, OBP's revised budget is \$6,690,801, an increase of \$122,538 or 1.9 percent over the approved FY 2006 budget. The increase is primarily due to step increase allowances and costs associated with the printing of the budget books and budget production support. Operating expenditures and obligations through March 5, 2007 total \$2,920,005 or 43.6 percent of the approved budget. We project to end this fiscal year within our approved budget.

FY 2006 Performance

Despite the challenges we faced in the District's FY 2007 budget process, we worked diligently to deliver the Mayor's budget on time, and I am very proud of that successful effort. During FY 2006, OBP achieved many accomplishments, which include:

- Reducing the deficit in the Capital Improvements Program;
- Continued improvement in developing a sound baseline budget;
- More effective monitoring and reporting of expenditures; and
- Continued improvements in our financial management systems.

1. Capital Improvements Program

The District's General Capital Improvements Fund (the Capital Fund) reported an accumulated surplus in the FY 2006 CAFR, a turnaround from the accumulated deficit reported each year from FY 2001 through FY 2005. The improvement in the Capital Fund's position was due in part to active OCFO and OCA management, along with Council oversight.

However, the surplus was primarily the result of 2 large financings. As those proceeds are spent over the next 2 years, the Capital Fund will return to deficit position if further improvements are not made.

In FY 2006, the District borrowed about \$345 million by issuing General Obligation (G.O.) Bonds. In addition, the District completed 2 other issuances: it securitized future revenue from tobacco companies, to finance capital and operating spending on health care needs; and it issued new Certificates of Participation (COPs), to finance the construction of a new mental health hospital and the purchase of a building for the Department of Motor Vehicles. **Table A** shows the effect of these 2 issuances on the overall position of the Capital Fund.

Table A: FY 2006 Performance, General Capital Improvements Fund

	Components of Capital Fund			
	Total, Capital Fund	FY 2006 Tobacco Proceeds	FY 2006 COPs Proceeds	All Other Sources
FY 2005 Ending Position	(246,362)	0	0	(246,362)
FY 2006 Revenues	1,295,380	245,260	196,879	853,241
FY 2006 Expenditures	652,198	0	15,363	636,835
FY 2006 Surplus	643,182	245,260	181,516	216,406
FY 2006 Ending Position	396,820	245,260	181,516	(29,956)

Setting aside the results of these 2 financings, the Capital Fund still showed an FY 2006 surplus of over \$200 million from all other sources. Note that these “other sources” include G.O. Bonds, Pay-as-you-go (PAYGO) capital transferred from the General Fund, federal grants for Highway projects, rights-of-way payments for local streets projects, master equipment lease purchases, and a variety of other sources. The District contributed an unusually large amount of PAYGO capital in 2006, including about \$54 million directly for deficit reduction and about \$213 million for capital expenditures, which led to the FY 2006 surplus and the reduction of the accumulated deficit for these other sources. This contribution was a major portion of the FY 2006 surplus.

However, as with the tobacco and COPs proceeds, much of the FY 2006 PAYGO will be spent in future years. This spending by itself will tend to worsen the deficit, but the fund's ultimate position each year will depend on revenues and expenditures across all its components.

As we testified last year, the OCFO, in collaboration with the executive branch and Council, formulated a plan that gradually reduces this deficit, without endangering the Capital Improvements Program. This strategy has 3 key elements:

- using fund balances and transfers from Operating, when available;
- borrowing more than the amount needed to fund new Capital spending for each year and applying any excess towards reducing the deficit; and
- limiting each fiscal year's Capital expenditures financed by GO bonds and PAYGO to the amount of each year's available GO bond financing and PAYGO transfers, by aggressively monitoring spending plans.

Several Other Capital-related objectives have been achieved thus far in FY 2007 including:

- continuing to issue quarterly capital Financial Status Reports (FSRs),
- reconfiguring and improving the CFO\$ource capital reports module, to enhance online tracking and reporting capabilities; and
- supporting the Technical Review Team (TRT), and the Budget Review Team (BRT).

We believe that these objectives will continue in FY 2008.

2. Baseline Budget Formulation

FY 2007 Operating Budget

We continued to refine the baseline budget. This was reflected in the FY 2007 local funds targets which included: (1) reductions for vacancy lapse savings and one-time costs; (2) improved fixed cost estimates; and (3) more accurate PS budgeting, including the fiscal impact of approved labor agreements. We also:

- published a “Budget Highlights” book that was well received by stakeholders;
- partnered with EOM on all BRT data analysis and documentation efforts;
- implemented the first ever Fixed Cost analysis, designed to incorporate all OPM/OCTO/DPW scheduled changes into the FY 2007 budget formulation process, through CFO\$ource’ s PROMS application;
- provided decision makers with better information to help them make budget decisions, through a web-based financial reporting system, CFO\$ource, that quickly provides online operating, capital and grants information;
- published a *Special Studies* budget book, which provided detailed benchmarks for 28 agencies, including Medicaid expenditures, information on baseball financing, the capital fund deficit, a Children’s Budget, a District-wide OCFO consolidated operating budget, and the fixed cost development process;
- worked with and trained DCPS personnel to reassume functions related to the release of approved grant budget modifications in SOAR as other agencies do; and
- improved Grants Management - in FY 2006, the District spent \$1.69 billion in federal operating grants (including Medicaid), an increase of 2 percent over the FY 2005 spending of \$1.65 billion;

3. Budget Execution

We identified potential deficits, based on analysis of agency accounts in CFO\$ource and then notified affected agencies early enough to implement solutions, required by the local Anti-Deficiency Act. We also:

- worked with agency budget and program staffs to resolve spending pressures;
- worked closely with ACFOs and AFOs to develop gap-closing plans to resolve FY 2006 budget pressures, which totaled approximately \$177.5 million or 2.4 percent of the District's budget;
- worked closely with agencies to notify them of discrepancies in their spending plans regarding compliance with the local Anti-Deficiency law;
- produced anti-deficiency compliance reports and submitted referrals of potential agency anti-deficiency violations to the Anti-Deficiency Review Board for possible action in a timely manner;
- worked closely with agency fiscal officers and the EOM to expeditiously process approximately 400 requested reprogrammings to help agencies balance their budgets and avoid Anti-Deficiency violations;
- developed a prototype model and process for identifying crucial cost drivers, building a data base of the selected drivers, and used these drivers, their trends, and derivative calculations of those trends for budgetary analysis;
- successfully implemented this model in the Department of Corrections – through the Cost Driver Project;
- developed Cost Driver Training Manual
- initiated quarterly Medicaid reporting for revenue, utilization and unit costs; and

- began to develop the process to migrate from quarterly to monthly Grants Reconciliation for improved accuracy and analysis in FY 2006, through CFO\$ource' s GRAMS application; reducing grants reconciliation time from months to weeks.

4. Systems Improvements and Operations

Through CFO\$ource' s Web forms application, we successfully implemented the first Position Budgeting System for the District, in the formulation of the FY 2008 budget. This system calculates agencies' Personal Services Budget based on active positions. It is the first step in attaining comprehensive Position Control.

We provided technical assistance to OCP in linking the CFO\$ource Spending Plan (SPIN AND CSPIN) applications to the Office of the Chief Procurement Officer' s (OCP) Service Level Agreement (SLA) application. This allowed OCP to develop the most accurate service level agreements in the District' s history by tying them to agency spending plans; and

- registered approximately 800 users for CFO\$ource.
- received the GFOA's Distinguished Budget Presentation Award for FY 2006 and FY 2007.

FY 2007 Key Program Goals and Initiatives

Our goal for FY 2007 is to continue to build on the successes of the past year.

OBP' s major operational goals are to:

- develop an improved FY 2008 baseline and Mayor' s proposed Budget and Financial Plan that (1) addresses all known prior year recurring spending pressures; (2) is balanced in the out-years; and (3) meets the quality requirements of the OCFO, the EOM and the Council;

- improve the formulation process in FY 2008 by implementing a new CFO\$ource Web-form application, this innovation replaces the manual process, providing agencies with real time online Personal Services and Nonpersonal Services data entry and analysis capabilities);
- add capital information to the Executive Dashboard;
- expand the level of reporting on capital projects through CFO\$ource;
- continue to enhance CFO\$ource, its Executive Dashboard, GRAMS, and Project Management (PROMS) applications;
- develop a real time on-line reprogramming process via Web forms to enable agency program and finance staffs to find out the status of their requests almost instantly;
- develop an on-line, automated FRP agency submission Web form module in CFO\$ource for ACFOs and their AFOs (the on-line FRP will include automated PS projections at the program level);
- streamline Anti-Deficiency compliance monitoring and reporting techniques for the Operating Budget;
- work with agencies to identify their cost drivers through the Cost Drivers Project; and
- continue to work closely with staff at key agencies (such as DCPS, and health and human services agencies) to identify problem areas early and develop solutions based on analysis, to maintain budget balance.

During the next round of strategic plan updates in the spring of FY 2007, we plan a comprehensive review of our key result measures (KRM's). As feasible, OBP will work to realign our performance measures to better reflect our mission. KRMs are

a major element of any agency's strategic plan and must remain relevant to an agency's core mission and deliverables.

Conclusion

Currently, the OCFO's staff is working with the City Administrator's office and EOM to develop the Mayor's FY 2008 Budget and Financial Plan for transmittal to the Council on March 23rd. We look forward to working with the Council and other policy makers during the consensus process to develop a sound and balanced budget that provides quality services to the residents of the District of Columbia.

Mr. Chairman, this concludes my remarks. I will be pleased to answer any questions that you may have.